

**FILED**

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**INDIANA UTILITIES CORPORATION**  
***Corydon, Indiana***

**INDIANA UTILITY  
REGULATORY COMMISSION**

**INDIANA UTILITY REGULATORY COMMISSION**  
***Cause No. 43520***

***DIRECT TESTIMONY AND EXHIBITS OF***

***DUANE C. MERCER***

***and***

***BONNIE J. MANN***

**INDIANA UTILITIES CORPORATION**  
***Corydon, Indiana***

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DCM

***INDIANA UTILITIES CORPORATION***  
***Corydon, Indiana***

***INDIANA UTILITY REGULATORY COMMISSION***  
***Cause No. 43520***

***DIRECT TESTIMONY OF***  
***DUANE C. MERCER***

**INDIANA UTILITIES CORPORATION**

**Corydon, Indiana**

**IURC Cause No. 43520**

**Direct Testimony and Exhibits of**

**Duane C. Mercer**

**Q. 1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Duane C. Mercer and my business address is One American Square,  
Suite 2600 Indianapolis, Indiana 46282.

**Q. 2. MR. MERCER, WHAT IS YOUR OCCUPATION?**

A. I am a Certified Public Accountant with the London Witte Group, LLC, a firm,  
which, specializes, in utility regulation before the Indiana Utility Regulatory  
Commission.

**Q. 3. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL  
BACKGROUND AND PROFESSIONAL QUALIFICATIONS, WHICH YOU  
BELIEVE MIGHT BE RELEVANT TO THE PRE-FILED TESTIMONY AND  
ORAL OPINIONS YOU OFFER?**

A. I am a 1969 graduate of Indiana University where I earned a Bachelor of Science  
degree in Business, with a concentration in accounting and economics. Following  
graduation, I was employed by the international accounting firm of Ernst & Young  
where I performed financial and operational audits, director's examinations and  
similar other services for a variety of clients. In 1972, RCA Consumer Electronics  
Division employed me in the Internal Auditing Department where I managed in the  
development and implementation of audit programs for all fiscal and administrative

1 areas of the Division. In 1976, I became Manager of International Finance for the  
2 Consumer Electronics Division of RCA with primary responsibility for financial  
3 planning, forecasting, and coordination of our foreign operating plants. In 1978, the  
4 Consumer Counselor's office for the State of Indiana employed me as the staff  
5 Certified Public Accountant. During my employment with the Consumer Counselor,  
6 I advised that office on numerous utility issues coordinated the filings of the Fuel  
7 Adjustment Clause and Gas Cost Adjustment with the consultants retained by that  
8 office, and testified on their behalf as required. In July 1983, I established a practice  
9 specializing in utility regulation. In 1985, I consolidated my practice with two other  
10 practitioners and formed Brenner, Mercer & Perry, P.C. to also perform work in the  
11 utility regulation area. Since May 1, 1987, I have been the Partner in charge of  
12 Utility Services for London Witte Group, LLC, a Firm specializing in, among other  
13 areas, utility regulation on behalf of the public, municipal and investor-owned  
14 utilities, and intervenors before the Indiana Utility Regulatory Commission.

15  
16 **Q. 4. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

17 **A.** I am a member of the American Institute of Certified Public Accountants (AICPA),  
18 and the Indiana CPA Society (INCPAS), for which I have served as a member of the  
19 Utilities Committee.

20  
21 **Q. 5. ON WHOSE BEHALF ARE YOU APPEARING IN THIS CAUSE?**

22 **A.** I am appearing on behalf of Indiana Utilities Corporation.  
23

24 **Q. 6. WHAT IS THE SCOPE AND PURPOSE OF YOUR ASSIGNMENT?**

25 **A.** My firm has been engaged by the Petitioner to analyze Petitioner's current financial

1 information and advise Petitioner and Petitioner's counsel as to changes in various  
2 rates and charges that should be sought in order to better provide a reasonable return  
3 on investment in used and useful property and cover all operation, maintenance, and  
4 tax expenses of the utility. In providing such service, I have reviewed Petitioner's  
5 books and records, examined Petitioner's capital structure, and considered the costs  
6 associated with various elements of the capital structure, and reviewed Commission's  
7 Orders in numerous cases, among other activities. On the basis of my expertise,  
8 experience, and this analysis, I have been able to formulate opinions and make  
9 recommendations to Petitioner's management as to various financial matters and  
10 rates charged to the various classes of customers for which service has been provided.  
11 I have reduced these recommendations to the form of schedules, which are attached  
12 to my testimony.

13  
14 **Q. 7. MR. MERCER, PLEASE SUMMARIZE THE MAJOR CONCLUSION THAT**  
15 **YOU REACHED OR ANY CONCERNS THAT YOU HAVE FOLLOWING**  
16 **YOUR ANALYSIS.**

17 **A.** Indiana Utilities Corporation is not earning its authorized return on rate base  
18 approved in its last rate case. Our last rate case was filed in 2003, based on a test  
19 year ending December 31, 2002. In addition, since the last rate case Petitioner has  
20 lost a significant industrial customer from its customer mix. Permitting Petitioner to  
21 earn a reasonable return on its investment will improve Petitioner's financial  
22 soundness, appropriately compensate the Utility's investors, and assist in establishing  
23 rates sufficient to cover all of its current operation expenses.

1 Q. 8. WOULD YOU PLEASE DESCRIBE THE TECHNICAL EXHIBITS, WHICH  
2 YOU SPONSOR?

3 A. Yes, I am sponsoring Exhibit C, D, and Exhibit E as well as Schedules C-2, C-3  
4 and portions of C-1. Exhibit C presents the "Pro-Forma Operating Income  
5 Statement". It reflects the results of operations under differing assumptions. The  
6 column entitled "December 31, 2007", reflects the actual per book results of  
7 Petitioner's operations for the agreed upon test year. The column entitled "Pro-  
8 Forma Present Rates" reflects the results of operations after the adjustments for all  
9 fixed, known and measurable elements. The column entitled "Proposed Rates"  
10 reflects the projected results of operations based upon a recommended increase of  
11 approximately 6.93%. The "Adjustments" reflected on Exhibit C are detailed on  
12 Schedules C-1, C-2 and C-3. Exhibit D reflects the calculation of the Original  
13 Cost Rate Base at September 30, 2008. Exhibit E summarizes the Cost of Capital  
14 calculation for Petitioner.

15  
16 Q. 9. PLEASE DESCRIBE THE ADJUSTMENTS PRESENTED IN SCHEDULE C-  
17 1, WHICH ARE SPONSORED BY YOU?

18 A. I am sponsoring Adjustment No. 1 and Adjustment No. 2 as follows:  
19 Adjustment No. 1 which adjusts "Operating Revenue" is comprised of five (5)  
20 separate adjustments totaling (\$3,669,179) as follows:

21 a) Elimination of (\$2,684,868) in net Gas Cost Adjustment (GCA) Revenues  
22 recorded as part of our Pro-Forma present rate revenue for the test year ended  
23 December 31, 2007.

24 b) Decrease of (\$1,268,852) in "Operating Revenues" to reflect the  
25 synchronization of revenue to be collected through rates based on the changes

1 in the base cost of gas established in the last general rate proceeding and the  
2 pro-forma cost of gas as detailed in Adjustment 2.

3 c) Increase in "Operating Revenue" of \$43,526 for weather normalization  
4 resulting from warmer than normal weather. Normal weather in this  
5 calculation is the 30-year average of weather information on heating degree-  
6 days from 1970 to 2000, as reported by the NOAA weather station approved  
7 by this Commission in the small gas NTA proceeding of Louisville,  
8 Kentucky.

9 d) Reduction of revenue collected from a transportation customer that has  
10 switched away from natural gas to oil of (\$27,911).

11 e) Increase in "Operating Revenue" of \$268,926 for the increase in customers  
12 resulting from the approval by the Indiana Utility Regulatory Commission in  
13 Cause No. 43514 for the CTA territorial expansion and main addition. This  
14 represents the estimated annual usage for one large industrial customer  
15 (Tyson Foods) and 50 residential customers.

16  
17 **Q. 10. WOULD YOU PLEASE DESCRIBE ADJUSTMENT NO. 2 FOR**  
18 **PURCHASED GAS?**

19 **Adjustment 2** decreases the cost of "Natural Gas Purchased" by (\$3,711,740) to  
20 eliminate the cost of gas from Petitioner's base rates. All gas costs incurred in the  
21 future will be included in the GCA process, verified by the Office of Utility  
22 Consumer Counselor, and approved by the IURC. The elimination of gas cost does  
23 not in any way affect the amount of increase being sought in this proceeding.



1    **Q.    11.    PLEASE DESCRIBE THE ADJUSTMENTS PRESENTED IN SCHEDULE**  
2                    **C-2 AND SCHEDULE C-3, WHICH ARE SPONSORED BY YOU.**

3    **A.**            **Adjustment A**, of Schedule C-2, reflects the projected proposed increase in annual  
4                    revenue of \$444,057 assuming the proposed rates are granted. **Adjustments B, C,**  
5                    **D, and E** of \$564, \$1,131, 6,217 and \$173,098, respectively reflect the proposed  
6                    increases in the IURC fee, the bad debt expense, the 1.4% State Utility Receipts Tax,  
7                    the State Income Tax and the Federal Income Tax associated with the proposed  
8                    6.93% increase in rates requested in this filing. In my opinion, I believe each of the  
9                    adjustments I have made is proper and has been made in accordance with the  
10                  classification of accounts approved by the Commission for utilities of the class of  
11                  Petitioner. **Schedule C-3** is the calculation of overall revenues on which the  
12                  proposed rate increase is based. GCA revenue (adjusted for Utility Receipts Tax) has  
13                  been added to present rate revenue to calculate the Pro-Forma rate increase on  
14                  average.

15  
16   **Q.    12.    BASED UPON THE AFOREMENTIONED FIXED, KNOWN AND**  
17                    **MEASURABLE ADJUSTMENTS, WHAT IS THE PROJECTED PRO-**  
18                    **FORMA PRESENT RATE NET OPERATING INCOME?**

19   **A.**            The Pro-Forma Present Rates Net Operating Income is projected to be \$152,363.  
20                    This is a decrease of (\$31,404) from the actual Net Operating Income of \$183,767 for  
21                    the test year ended December 31, 2007.

22  
23   **Q.    13.    MR. MERCER, WOULD YOU PLEASE DESCRIBE EXHIBIT D?**

24   **A.**            Yes. Exhibit D is the calculation of Original Cost Rate Base. It is comprised of  
25                    several components.

1    **Q.    14.    WHAT ARE THOSE COMPONENTS?**

2    A.        The major component is Utility Plant-in-Service as of December 30, 2007, of  
3               \$7,294,301. In addition, major items of plant will be added to rate base between  
4               December 31, 2007 and September 30, 2008. These include a new billing system for  
5               \$31,415, the amount of payroll increase capitalized and removed from the payroll  
6               adjustment on Schedule C-1 of \$16,468 and the cost of a new line extension within  
7               the expanded service area for \$750,000. This results in a total cost of Utility Plant-  
8               in-Service of \$8,092,184. The subtraction of estimated accumulated depreciation of  
9               (\$3,714,139) at September 30, 2008 results in the Net Utility Plant in Service of  
10              \$4,378,045.

11             To the Net Utility Plant-in-Service, we have added our requirement for cash working  
12             capital in the amount of \$124,767 using the FERC 45-day working capital formula,  
13             which has been accepted for gas utilities the size of Petitioner in lieu of performing a  
14             cash lead-lag study.

15             Additionally, we have included the 13-month average of material and supplies in the  
16             amount of \$32,011.

17             The total original cost rate base being requested in this Cause is \$4,534,823.

18  
19    **Q.    15.    PLEASE CONTINUE WITH THE EXPLANATION OF YOUR EXHIBITS.**

20    A.        Exhibit E presents the "Cost of Capital Calculation" and assumes a 10.9% return on  
21               Common Equity.

1 Q. 16 HAVE YOU INCORPORATED THE CONCERNS OF THE OFFICE OF  
2 UTILITY CONSUMER COULSELOR WITH RESPECT TO USING A  
3 LOWER COST OF CAPITAL TO FINANCE CONSTRUCTION, AS WELL  
4 AS, SYNCHRONIZING INTEREST EXPENSE?

5 A. Yes, I have. We have worked very closely with the Office of Utility Consumer  
6 Counselor on several rate cases over the past year. Based on this working  
7 relationship I have advised my client that it would be appropriate, not only to finance  
8 the CTA territorial expansion, but to also include such financing in the capital  
9 structure of Petitioner. In, addition I have synchronized the benefit of the interest  
10 expense associated with such debt to the customers in our State and Federal income  
11 tax calculation  
12

13 Q. 17. MR. MERCER, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS  
14 COMMISSION ON AN APPROPRIATE AND REASONABLE COSTS  
15 ASSOCIATED WITH THE CAPITAL STRUCTURE, INCLUDING A RATE  
16 OF RETURN ON EQUITY FOR INVESTOR-OWNED UTILITIES?

17 A. Yes. I have testified before this Commission on numerous occasions on such  
18 subjects.

19 Q. 18. HAVE YOU FORMED AN OPINION AS TO WHAT A REASONABLE RATE  
20 OF RETURN ON EQUITY WOULD BE FOR THIS PETITIONER WHICH  
21 WOULD ALSO BE REASONABLE FOR THE FORESEEABLE FUTURE?

22 A. Yes, I have.  
23

24 Q. 19. PLEASE EXPLAIN WHAT YOUR OPINION IS AND GENERALLY HOW  
25 YOU ARRIVED AT SUCH OPINION.

1 A. I believe the rate of return on equity should be at least 10.9%. I have arrived at such  
2 opinion from a variety of considerations. First, I considered the Commission's oft  
3 quoted requirements of the purpose of a reasonable return. Namely, that such a  
4 return is one which is comparable to returns of others having corresponding risks, is a  
5 return which is sufficient to ensure confidence and financial integrity of the regulated  
6 utility, is sufficient to maintain its current credit, and will allow the utility to attract  
7 capital.

8 As a participant in the Small Gas Company ARP in 2001, I also considered the fact  
9 that the witnesses in that case recognized the risk related to these utilities as a result  
10 of the extreme cold winter during 2000 and 2001 and the resultant high cost of  
11 natural gas incurred. This risk is associated with the procurement of natural gas,  
12 credit concerns by suppliers to small gas utilities and the GCA process itself.  
13 Accordingly, some component of these factors should be considered in the rate of  
14 return requested by a utility.

15 In addition, I also reviewed what Petitioner has been able to earn based on the last 20  
16 quarters of the GCA process. Based on that review I noted that Petitioner has a  
17 negative Operational Income Earnings Test pool differential of (\$2,099,431), or  
18 (\$524,858) on an annual accumulation basis. This deficit pool of earning is  
19 significantly in excess of the net operating income being requested by Petitioner  
20 today. Again, this factor should also be considered in developing a return for this  
21 utility.

22 Arguably, given the risk of uncertainty resulting from natural gas procurement, as  
23 well as the fact that Petitioner has under earned its previously authorized return in 19  
24 out of the last 20 GCA quarters, Petitioners overall rate of return should be higher  
25 than that currently authorized of 10.4%.

1 Finally, I took into consideration the fact that Indiana Utilities Corporation's stock is  
2 unlisted on any exchange and the company is a small utility. Therefore consideration  
3 should be given for the lack of liquidity of the stock and size as the Commission has  
4 considered in prior cases.

5 Taking all of these considerations together and recognizing that Indiana Utilities  
6 Corporation is trying to retain the confidence of its stockholders, I am of the opinion  
7 that a 10.9% return on equity is a minimum return that this Commission should  
8 authorize in this proceeding.

9  
10 **Q. 20. MR. MERCER, HAVE YOU INCLUDED IN YOUR ADJUSTMENTS FOR**  
11 **RATE CASE EXPENSE COSTS OF HIRING AN ECONOMIST TO SPEAK**  
12 **TO THE ISSUE OF RATE OF RETURN ON EQUITY?**

13 **A.** No, I have not.

14  
15 **Q. 21. HAVE YOU INCLUDED IN RATE CASE EXPENSE, FUNDS FOR**  
16 **PRESENTING TESTIMONY OR EXHIBITS FROM A SEPARATE**  
17 **WITNESS ON COST OF SERVICE ISSUES?**

18 **A.** No.

19  
20 **Q. 22. WILL EITHER OF THESE TYPES OF WITNESSES BE NEEDED IN THIS**  
21 **CASE?**

22 **A.** To the extent that rebuttal testimony and additional financial analysis and/or cost of  
23 service allocations would be required to rebut these issues, it would be necessary to  
24 increase my rate case expense adjustment.

1 Q. 23. HAS THE COMPANY IDENTIFIED WHO MIGHT BE CALLED TO  
2 PROVIDE COST OF CAPITAL OR COST OF SERVICE REBUTTAL  
3 TESTIMONY?

4 A. Yes. Dr. Boquist on cost of capital; Mr. Heid on cost of service; both recognized  
5 experts in these areas.  
6

7 Q. 24. IF ADDITIONAL WITNESSES SUCH AS DR. BOQUIST OR MR. HEID  
8 WERE NECESSARY, WOULD THIS ADD TO PETITIONER'S RATE CASE  
9 EXPENSE?

10 A. Yes, based on other recent small gas proceedings, I would estimate an additional  
11 \$55,000 would be required.  
12

13 Q. 25. MR. MERCER, IN YOUR OPINION, WHAT IS THE AMOUNT OF  
14 INCREASE IN REVENUES THAT IS REQUIRED BY THE PETITIONER IN  
15 ORDER TO RECOVER THE CURRENT COST OF SERVICE INCLUDING  
16 A REASONABLE RETURN ON ITS USED AND USEFUL PROPERTY?

17 A. Based on my analysis and the findings on my exhibits, the Petitioner should be  
18 authorized to increase rates and charges by \$444,057 in Operating Revenues. This  
19 recommended increase would result in total Pro-Forma Proposed Revenues of  
20 \$2,131,535. Deducting Pro-Forma Proposed Operating Expenses of (\$1,716,145)  
21 produces a Pro-Forma Proposed Net Operating Income of \$415,390.  
22

23 Q. 26. IF THIS COMMISSION AUTHORIZED A NET OPERATING INCOME OF  
24 \$415,390, WHAT IS THE OVERALL RATE OF RETURN ON  
25 PETITIONER'S USED AND USEFUL PLANT?

1 A. A Net Operating Income of \$415,390 would result in a 9.16% overall return on the  
2 original cost rate base. This overall return is very similar to the return granted by this  
3 Commission in Petitioners last rate proceeding. The components comprising the  
4 overall return are detailed on Exhibit E.

5  
6 **Q. 27. HAVE YOU ALSO EXAMINED PETITIONER'S RATE BASE AND BEEN**  
7 **ABLE TO MAKE A DETERMINATION AS TO THE ORIGINAL COST?**

8 A. Yes, I have. Based upon Petitioner's books and records and my discussions with  
9 management, I believe the original cost is no less than \$4,534,823.

10  
11 **Q. 28. MR. MERCER, ON THE BASIS OF YOUR ANALYSIS, WHAT NET**  
12 **OPERATING INCOME SHOULD THIS PETITIONER BE AUTHORIZED**  
13 **AN OPPORTUNITY TO EARN?**

14  
15 A. I believe this Petitioner should be authorized a reasonable opportunity to earn  
16 \$415,390.

17  
18 **Q. 29. MR. MERCER, HOW WILL THIS PROPOSED INCREASE BE ASSIGNED**  
19 **TO EACH CUSTOMER CLASS?**

20 A. The overall increase of 6.93%, after increasing the customer charge to comparable  
21 levels with other small utilities, will be allocated based on an across-the-board basis.  
22 We would propose to increase our General Service customer charge to \$10.00; Large  
23 Commercial to \$55.00; Industrial and General Service Transportation to \$400.00 and  
24 Large Transportation to \$900.00.

1 Q. 30. DOES THAT CONCLUDE YOUR TESTIMONY?

2 A. Yes sir, it does.



BJM

INDIANA UTILITIES CORPORATION  
*Corydon, Indiana*

INDIANA UTILITY REGULATORY COMMISSION  
*Cause No. 43520*

DIRECT TESTIMONY OF  
  
BONNIE J. MANN

1                                   **INDIANA UTILITIES CORPORATION**  
2                                   **Corydon, Indiana**

3  
4                                   **IURC Cause No. 43520**

5  
6                                   **Direct Testimony of**  
7                                   **Bonnie J. Mann**  
8

9  
10   **Q.    1.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

11   **A.**My name is Bonnie J. Mann; my business address is One American Square, Suite  
12                    2600, Indianapolis, Indiana 46282.  
13

14   **Q.    2.    WHAT IS YOUR OCCUPATION?**

15   **A.**I am a Certified Public Accountant specializing in public utility matters.  
16

17   **Q.    3.    BY WHOM ARE YOU EMPLOYED?**

18   **A.**I am employed by London Witte Group, LLC. (LWG)  
19

20   **Q.    4.    WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL**  
21                   **BACKGROUND AND PROFESSIONAL QUALIFICATIONS?**

22   **A.**I am a 1987 graduate of Butler University where I earned a Bachelor of Science  
23                    Degree in business, with a concentration in accounting. Following graduation, I was  
24                    employed by the international accounting firm of Peat Marwick, where I performed  
25                    financial and operational audits for a variety of clients. Since September 1988, I have  
26                    been employed by London Witte Group, LLC, and I am currently a Principal  
27                    concentrating in the utilities area.  
28

1   **Q.    5.    WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

2    A.       I am a member of the Indiana CPA Society (INCPAS), and the American Institute of  
3            Certified Public Accountants (AICPA). I have been a member of the INCPAS  
4            Utilities Committee.

6   **Q.    6.    WHAT IS THE SCOPE AND PURPOSE OF YOUR ASSIGNMENT?**

7    A.       The scope and purpose of my assignment was to assist Mr. Mercer in the review of  
8            Petitioner's financial records in order to form an opinion as to the appropriate level of  
9            revenues required to recover the Petitioner's current cost of service and to prepare  
10           Testimony and Exhibits in the Petitioner's behalf for presentation to the IURC in the  
11           form of evidence supporting Petitioner's request.

13   **Q.    7.    ON WHOSE BEHALF ARE YOU APPEARING IN THIS CAUSE?**

14   A.       I am appearing on behalf of Indiana Utilities Corporation.

16   **Q.    8.    I HAND YOU A DOCUMENT MARKED AS PETITIONER'S EXHIBITS  
17            BJM AND DCM-1 AND ASK YOU TO IDENTIFY THEM.**

18   A.       Exhibit BJM is my Pre-filed written testimony, and Exhibit DCM-1 is comprised of  
19           the technical exhibits and supporting schedules which are used as a basis for our  
20           opinion as to the appropriate level of revenues. I have worked in conjunction with  
21           Mr. Mercer in developing these supporting schedules.

1   **Q.    9.    WOULD YOU PLEASE EXPLAIN THE TECHNICAL EXHIBITS WHICH,**  
2                   **YOU SPONSOR?**

3   **A.**        Yes. Exhibit A and B show the audited Comparative Balance Sheets and Statements  
4                   of Net Income, respectively, for the Petitioner. This historical information is  
5                   presented as of December 31, 2007, and December 31, 2006, and for the years ended  
6                   on each of said dates. The twelve months ended December 31, 2007, is the test year  
7                   approved in the Pre-Hearing Order in this Cause. The books and records of petitioner  
8                   are kept in accordance with the uniform system of accounts for a gas utility. They are  
9                   the representations of the management of the Petitioner, and are the starting point for  
10                  our adjustments. Schedules A-1, B-1 and B-2 are the supporting detail for the major  
11                  Balance Sheet and Statement of Income elements, respectively. All of the amounts  
12                  presented in Exhibits A and B as well as Schedules A-1, B-1 and B-2 come directly  
13                  from the Petitioner's books and records for the years ended December 31, 2007 and  
14                  2006. In addition, I am sponsoring certain adjustments in schedule C-1.

15  
16   **Q.    10.   WOULD YOU PLEASE DESCRIBE THE ADJUSTMENTS CONTAINED IN**  
17                   **SCHEDULE C-1, WHICH ARE SPONSORED BY YOU?**

18   **A.**        Yes, Adjustment No.'s 3, 4, 5, 6, and 7 are comprised of several adjustments to  
19                   "Operating Expenses".

20  
21                  Adjustment No. 3 adjusts "Operation and Maintenance" expense and consists of  
22                  four (4) different adjustments totaling \$113,840 as follows:

23                  a) Increase in net payroll expense effective within twelve (12) months from the

1 end of the test period, of \$59,559. Pro-Forma payroll was calculated by  
2 annualizing the test year payroll by employee and then making additional  
3 adjustments for salary increases expected in December 2008, the Petitioners  
4 normal date for payroll increases.

5 b) Increase in "Operation and Maintenance" expense for the increase in the  
6 Pension cost of \$14,471. This increase is based on the Pro-Forma salaries  
7 calculated for the payroll adjustment described above.

8 c) Increase in "Operation and Maintenance" expense of \$34,249, representing the  
9 amortization of the current rate case expenses of \$145,000 in professional fees,  
10 the remaining amount of \$12,935 from the NTA proceeding and the cost of  
11 customer notice mailings of \$1,250 over the expected life of the proposed rates,  
12 which we estimate to be three (3) years

13 d) Increase in IURC fee of \$5,561 to reflect the current IURC rate on the  
14 applicable Pro-Forma Present Rate Revenues.

15  
16 **Adjustment 4** consists of five adjustments to "Administrative and General" expense  
17 totaling (\$17,394) as follows:

18 a) Increase in "Administrative and General" expense of \$505 to reflect the increase  
19 in postage rates at the beginning of the year.

20 b) Increase in "Administrative and General" expense of \$7,466 representing the  
21 increase in transportation cost resulting from the increased cost of gasoline.

22 c) Decrease in "Administrative and General" expenses to remove charitable  
23 donations of (\$8,890).

1 d) Decrease in "Administrative and General" expenses for extra accounting fees  
2 included in the test year resulting from the timing of billings and payments of  
3 (\$18,586).

4 e) Increase "Administrative and General" expense by \$2,111 to reflect the cost of  
5 the software maintenance contract based for the new billing software purchased  
6 by the petitioner.

7 **Adjustment 5** reflects the increase in the Pro-Forma "Depreciation and Amortization  
8 Expense" for the Utility Plant-In-Service expected as of September 30, 2008. We  
9 have calculated depreciation using 3% rate for distribution plant, a 20% rate for  
10 transportation, a 5% rate other general equipment, and a 3% rate for buildings. This  
11 results in an increase in Depreciation of \$38,809. The Commission previously  
12 approved these depreciation rates.

13  
14 **Adjustment 6** is comprised of three (3) adjustments totaling \$30,510 to "Taxes Other  
15 Than Income Taxes" as follows:

16 a) To adjust payroll taxes by \$4,556 for the increase in payroll reflected in  
17 Adjustment 3 a.

18 b) To increase property taxes by \$11,547 to match the amount of property taxes  
19 billed during the test year and including the property taxes for the new utility-  
20 plant-in-service included on Schedule D.

21 c) Increase in Utility Receipts Tax of \$14,407 to reflect the Pro-Forma  
22 Present Rate adjustments to revenues multiplied by the Utility Receipts Tax  
23 Rate of 1.4%.

1           **Adjustment 7** is comprised of two (2) adjustments decreasing Income Taxes by  
2           (\$91,895) after considering the afore-mentioned adjustments to revenues and  
3           expenses as follows:

4           a)    Decrease in State Income Tax of (\$9,747).

5           b)    Decrease in Federal Income Tax of (\$82,148).

6  
7    **Q.    11.    DOES THAT CONCLUDE YOUR TESTIMONY?**

8    **A.           Yes sir, it does.**

9  
10   1054545

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**INDIANA UTILITY REGULATORY COMMISSION**  
**Cause No. 43520**

**EXHIBITS OF**

**DUANE C. MERCER**

**AND**

**BONNIE J. MANN**



**EXHIBIT A**

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**BALANCE SHEETS**  
**December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
UTILITY PLANT IN SERVICE		
Gas plant in service	\$ 6,429,350	\$ 5,969,652
General plant	864,951	828,544
Accumulated depreciation	<u>(3,530,296)</u>	<u>(3,306,745)</u>
Net Utility Plant In Service	<u>3,764,005</u>	<u>3,491,451</u>
CURRENT ASSETS		
Cash	257,017	450,087
Accounts receivable	645,090	805,723
Investments	5,289,436	4,487,623
Materials & supplies	31,909	31,517
Prepaid expenses and other current assets	<u>206,699</u>	<u>181,579</u>
Total Current Assets	<u>6,430,151</u>	<u>5,956,529</u>
Total Assets	<u>\$ 10,194,156</u>	<u>\$ 9,447,980</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Capital Stock	\$ 107,400	\$ 107,400
Retained Earnings	7,578,430	7,392,256
Additional Paid-in Capital	15,843	15,843
Total Shareholders' Equity	<u>7,701,673</u>	<u>7,515,499</u>
CURRENT LIABILITIES		
Accounts Payable	953,988	690,287
Customer deposits	62,931	52,905
Accrued expenses	55,375	49,124
Other Deferred Credits	<u>190,630</u>	<u>117,152</u>
Total Current Liabilities	<u>1,262,924</u>	<u>909,468</u>
UNAMORTIZED INVESTMENT TAX CREDIT	<u>33,534</u>	<u>35,334</u>
DEFERRED INCOME TAXES	<u>1,196,023</u>	<u>987,680</u>
Total Liabilities and Shareholders' Equity	<u>\$ 10,194,156</u>	<u>\$ 9,447,980</u>

## SCHEDULE A-1

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**DETAIL OF UTILITY PLANT-IN-SERVICE**  
**December 31, 2007 and 2006**

<u>Description</u>	<u>2007</u>	<u>2006</u>
<b><u>Utility Plant in Service</u></b>		
<b><u>Distribution Plant</u></b>		
Mains - Distribution	\$ 3,268,488	\$ 3,102,325
Mains - Transmission	754,580	754,036
Reg. stations equipment	93,746	93,746
Services	1,233,853	1,185,483
Meters	677,030	594,163
Automatic Meter Reading	150,423	-
New meter installations	232,243	220,912
Land and Right of Ways	18,987	18,987
Total Distribution Plant	<u>\$ 6,429,350</u>	<u>\$ 5,969,652</u>
<b><u>General Plant</u></b>		
Structures and improvements	\$ 160,484	\$ 142,662
Office furniture and equipment	42,267	42,267
Transportation equipment	269,736	269,736
Tools & shop equipment	68,833	61,368
Power operated equipment	161,865	161,865
Communication equipment	23,523	23,481
Computer equipment	138,243	127,165
Total General Plant	<u>864,951</u>	<u>828,544</u>
Total Utility Plant in Service	<u><u>\$ 7,294,301</u></u>	<u><u>\$ 6,798,196</u></u>

## EXHIBIT B

**INDIANA UTILITIES CORPORATION**

Corydon, Indiana

**COMPARATIVE STATEMENTS OF NET INCOME**  
For the Twelve Months Ended December 31,

Description	2007	2006
<b><u>Operating Revenues</u></b>		
Gas sales	\$ 5,331,514	\$ 5,788,496
Other gas revenues	25,143	33,741
Total Operating Revenues	5,356,657	5,822,237
<b><u>Operating Expenses</u></b>		
Natural gas purchased	3,711,740	4,086,615
Distribution expense	194,545	202,385
Customer accounts expense	76,101	77,104
Administrative and general expense	631,045	643,735
Depreciation	226,814	248,064
Taxes other than income taxes	147,375	148,666
Income taxes	185,270	172,968
Total Operating Expenses	5,172,890	5,579,537
Net Operating Income	183,767	242,700
<b><u>Other Income and Expense - Net</u></b>		
Interest income	126,948	115,244
Dividend income	78,841	72,826
Gain (loss) on sale of investments	-	2,000
Interest expense	(3,402)	(2,907)
All other income, net	12,780	9,916
Total Other Income and Expense - Net	215,167	197,079
Net Income	\$ 398,934	\$ 439,779

**SCHEDULE B-1****INDIANA UTILITIES CORPORATION**

Corydon, Indiana

**COMPARATIVE DETAIL OF OPERATING REVENUES  
For the Twelve Months Ended December 31,**

<u>Description</u>	<u>2007</u>	<u>2006</u>
<b><u>Operating Revenues</u></b>		
<b><u>Gas sales</u></b>		
Residential	\$ 1,863,054	\$ 1,976,386
Commercial	2,706,182	3,013,505
Industrial	639,893	689,041
Transportation	122,385	109,564
Total gas sales	<u>5,331,514</u>	<u>5,788,496</u>
<b><u>Other gas revenues</u></b>		
Other utility revenue	<u>25,143</u>	<u>33,741</u>
Total operating revenues	<u>\$ 5,356,657</u>	<u>\$ 5,822,237</u>

**INDIANA UTILITIES CORPORATION**

Corydon, Indiana

**COMPARATIVE DETAIL OF OPERATING EXPENSES**

For the Twelve Months Ended December 31,

Description	2007	2006
<b><u>Operating Expenses</u></b>		
<b><u>Natural gas purchased</u></b>		
Natural gas purchases	\$ 3,687,740	\$ 4,103,928
Natural gas purchases, other	24,000	(17,313)
Total natural gas purchased	3,711,740	4,086,615
<b><u>Distribution &amp; Transmission Expenses</u></b>		
Operation of mains	85,800	97,040
Mains & service expense	49,438	65,754
Meter & regulator expense	33,678	25,391
Building & misc equip maintenance	7,420	2,071
Building expenses	18,209	12,129
Total distribution expense	194,545	202,385
<b><u>Customer accounts expenses</u></b>		
Meter reading labor	25,924	27,265
Accounting/collection labor	14,374	10,577
Bad debt expense	13,642	9,840
Customer premises expense	22,161	29,422
Total customer accounts expenses	\$ 76,101	\$ 77,104

**INDIANA UTILITIES CORPORATION****Corydon, Indiana****COMPARATIVE DETAIL OF OPERATING EXPENSES****For the Twelve Months Ended December 31,**

Description	2007	2006
<b>Operating Expenses (Con't)</b>		
<b><u>Administrative &amp; general expenses</u></b>		
Administrative & general salaries	\$ 137,020	\$ 147,233
Office salaries	100,908	87,446
Directors fees	12,000	7,500
Employee benefits/pension	221,365	283,925
Advertising/Marketing expense	8,396	1,705
Transportation expense	26,108	13,719
Outside services - auditing	47,186.00	12,515.00
Outside services - legal	14,057	25,777
Outside services - miscellaneous	3,000	4,400
Donations	8,890	10,080
Office supplies expense	33,310	26,734
Regulatory Commission expense	2,899	5,856
Rate case amortization	18,813	18,816
Dues	2,234	3,782
Duplicate charge credit	(5,141)	(5,753)
Total administrative & general expenses	631,045	643,735
<b>Depreciation expense</b>		
Depreciation	226,814	248,064
Total depreciation expense	226,814	248,064
<b>Taxes other than income taxes</b>		
Property taxes	38,776	37,095
Utility receipts tax	75,065	77,165
FICA & unemployment taxes	33,534	34,406
Total taxes other than income taxes	147,375	148,666
<b>Income Taxes</b>		
Federal income taxes	123,173	183,460
Indiana supplemental tax	36,313	56,802
Deferred income taxes	27,584	(65,494)
Investment tax credit	(1,800)	(1,800)
Total income taxes	185,270	172,968
Total Operating Expenses	<u>\$ 5,172,890</u>	<u>\$ 5,579,537</u>

**INDIANA UTILITIES CORPORATION**

Corydon, Indiana

**Pro-Forma Operating Income Statement  
At Pro-Forma Present and Proposed Rates  
For the 12 Months Ended December 31, 2007**

Increase Required: 6.93%

	December	Adjustments	Ref	Pro-Forma Present Rates	Adjustments	Ref	Pro-Forma Proposed Rates
<b><u>Operating Revenues</u></b>							
Gas Sales	\$ 5,331,514	\$ (3,669,179)	(1)	\$ 1,662,335	\$444,057	(A)	\$ 2,106,392
Other Gas Revenues	25,143			25,143			25,143
Total Operating Revenues	5,356,657	(3,669,179)		1,687,478	444,057		2,131,535
<b><u>Operating Expenses</u></b>							
Natural Gas Purchased	3,711,740	(3,711,740)	(2)	-			-
Other Operation & Maintenance	901,691	96,447	(3&4)	998,138	1,715	(B & C)	999,853
Depreciation & Amortization	226,814	38,903	(5)	265,717			265,717
Taxes Other Than Income Taxes	147,375	30,510	(6)	177,885	6,217	(D)	184,102
Income Taxes	185,270	(91,895)	(7)	93,375	173,098	(E)	266,473
Total Operating Expenses	5,172,890	(3,637,775)		1,535,115	181,030		1,716,145
Net Operating Income	\$ 183,767	\$ (31,404)		\$ 152,363	\$ 263,027		\$ 415,390

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(1) REVENUE ADJUSTMENTS**

(a)

Decrease in "Operating Revenue" from the elimination of GCA Revenue included in the rate case.

\$ (2,684,868)

(b)

To adjust "Operating Revenue" for changes in the Base Cost of Gas Revenues and to set the Base Cost of Gas to zero.

	Pre NTA (Jan - Apr)	Post NTA (May - Dec)
Test Year Sales - DTH	217,724	184,302
Weather Normalization @ Margin Rate- 1 (c)		
New Residential Dth from CTA area - Ave. Revenue Per Customer	2,000	
New volumes from CTA area @ Margin Rate - 1 (e)	-	
Adjusted Test Year Sales-DTH	219,724	184,302
Pro-Forma Cost of Gas	\$ -	\$ -
Less: Unaccounted for and Company Use	-	-
Base Cost of Gas	\$ -	\$ -
New Base Rate Cost of Gas	\$ -	\$ -
Less:		
Prior Base Rate Cost of Gas Cause No. 40965-U - DTH	\$ 5.8510	\$ (0.0909)
Net Change in Base Rate Cost of Gas	(5.8510)	0.0909
Adjusted Test Year Sales - DTH	219,724	184,302
Increase / (Decrease) in Operating Revenues Resulting From the Change in Base Rate Cost of Gas	<u>\$ (1,285,605)</u>	<u>\$ 16,753</u>
		<u>\$ (1,268,852)</u>



**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(1) REVENUE ADJUSTMENTS CONTINUED**

(c)

To Adjust "Operating Revenue" for the normalization of warmer than normal weather.

	Gen Service Heat	Commercial Heat	Total
Sales- DTH	153,992	188,198	
Base Load	26,488	81,544	
Temperature Sensitive Sales	127,504	106,654	
Weather Factor - Warmer Than Normal	14.95%	14.95%	
Increase in Sales - DTH	19,062	15,945	
Last Rate Block - Margin	\$ 2.5968	\$ 2.5820	
Additional Weather Normalization Revenue	\$ 49,500	\$ 41,170	\$ 90,670
Less: NTA Revenue Collected during Test Year			(47,144)
Increase / (Decrease) in Operating Revenue resulting from warmer than normal weather.			<u>\$ 43,526</u>

(d)

To adjust "Operating Revenue" for reduction in sales volume of Transportation customer. \$ (27,911)

(e)

To adjust "Operating Revenue" for increase in Industrial and Residential customers as a result of CTA area expansion. \$ 268,926

Total Adjustment to "Operating Revenues" - Increase / (Decrease) \$ (3,669,179)

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(2) NATURAL GAS PURCHASED ADJUSTMENT**

To adjust "Natural Gas Purchased" to eliminate the cost of natural gas purchased from base rates.

Test Year Sales - DTH	402,026
Weather Normalization Volumes	35,007
New volumes from CTA area	<u>23,132</u>
Adjusted Test Year Purchases - DTH	460,165
Unaccounted for Gas Percentage-Test Year	<u>0.00%</u>
Pro-Forma Purchased Gas - DTH	-
Anticipated Cost of Delivered System Supply Gas - Per DTH	<u>\$ 10.31</u>
Pro-Forma Cost of Gas	\$ -
Less: Test Year Purchased Gas	<u>3,711,740</u>
Increase / (Decrease) in "Natural Gas Purchased"	<u><u>\$(3,711,740)</u></u>

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS**

(a)

To adjust other "Operation and Maintenance" expense for the annualization of payroll and wage increases (Net of Amount Capitalized).

Payroll Adjustment - Increase / (Decrease)	<u>\$ 59,559</u>
--	------------------

(b)

To Increase "Operations and Maintenance" expense for Pension Contribution based on payroll annualization and increase in wages.

Pension Expense Adjustment - Increase / (Decrease)	<u>\$ 14,471</u>
--	------------------

(c)

To adjust other "Operation and Maintenance" expense for the amortization of rate case expense.

Estimated Cost of Rate Case	\$ 145,000	
Actual Cost of NTA Proceeding	12,935	
Estimated Cost of Mailing Notice to Customers	<u>1,250</u>	
Total Estimated Cost	159,185	
Amortization Period - Years	<u>3</u>	
	53,062	
Less: Amount included in Test Year	<u>(18,813)</u>	
Adjustment - Increase / (Decrease)		<u>\$ 34,249</u>

(d)

To Adjust "Operation and Maintenance" expense to reflect current IURC fee.

Applicable Revenues at Present Rates. (Including GCA Revenue)	\$ 6,430,724	
Current IURC Rate	<u>0.001315587</u>	
Pro-Forma IURC Fee at Present Rates	8,460	
Less: Test Year IURC Fee	<u>2,899</u>	
Adjustment - Increase		<u>\$ 5,561</u>

Total Adjustment to "Operation and Maintenance" expense - Increase / (Decrease)	<u>\$ 113,840</u>
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**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(4) ADMINISTRATIVE AND GENERAL EXPENSE ADJUSTMENTS**

(a)

To adjust "Administrative & General" expense for the increased cost of Postage by the U.S. Postal Service in 2007.

Number of pieces of mail	25,271
Increase in postage rate	\$ 0.02

Adjustment Increase / (Decrease) in Postage Expense	\$ 505
---	--------

(b)

To adjust "Administrative & General" expense for transportation cost associated with the increase in gasoline prices

Current Gasoline Charge per Gallon	\$ 3.95
Average Gasoline Charge per Gallon During Test Year	3.00
	0.95
Gallons of Gasoline Purchased in Test Year	7,859

Transportation Adjustment - Increase / (Decrease)	\$ 7,466
---	----------

(c)

To adjust "Administrative & General" expense to remove charitable contributions.

\$ (8,890)
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(d)

To adjust "Administrative & General" expense for increase / (decrease) in accounting fees.

Pro-Forma Accounting/Auditing Fees	\$ 28,600
Less: Test Year Accounting/Auditing Fees	47,186

Accounting Fees Adjustment - Increase / (Decrease)	\$ (18,586)
--	-------------

(e)

To adjust "Administrative & General" expense for annual maintenance for new billing system purchased by Indiana Utilities

Pro-Forma Billing System Maintenance Expense	\$ 2,111
Less: Test Year Expense	-

Annual Maintenance Adjustment - Increase / (Decrease)	\$ 2,111
---	----------

Total Adjustment to "Administrative & General" Expense - Increase / (Decrease)	\$ (17,394)
--	-------------

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(5) DEPRECIATION EXPENSE ADJUSTMENT**

To adjust "Depreciation Expense" to reflect current plant in service.

Transmission & Distribution Plant In Service @ 12/31/2007	\$ 6,429,350	
Plus: Additions from Rate Base Schedule	766,468	
Less: Fully Depreciated	(289,577)	
Sub Total	6,906,241	
Depreciation Rate	3%	
		\$ 207,187
Building Structures & Improvements @ 12/31/2007	\$ 160,484	
Less: Fully Depreciated	(61,500)	
Sub Total	98,984	
Depreciation Rate	3%	
		2,970
Transportation and Computer Equipment @ 12/31/2007	407,979	
Plus: Additions from Rate Base Schedule	31,415	
Less: Fully Depreciated	(207,546)	
Sub Total	231,848	
Depreciation Rate	20%	
		46,370
All Other General Plant @ 12/31/2007	296,488	
Less: Fully Depreciated	(112,679)	
Sub Total	183,809	
Depreciation Rate	5%	
		9,190
Total Pro-Forma Depreciation Expense		265,717
Less: Test Year Depreciation Expense		(226,814)
Adjustment - Increase / (Decrease) in Depreciation Expense		<u>\$ 38,903</u>

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(6) TAXES OTHER THAN INCOME TAX ADJUSTMENTS**

(a)

To adjust "Taxes Other Than Income Tax" for increase  
in FICA Taxes due to payroll increase.

**FICA Taxes:**

Payroll Wage Increase Subject To FICA Limits	\$ 59,559
FICA Tax Rate	<u>7.65%</u>
Increase / (Decrease) in FICA Taxes	<u>\$ 4,556</u>

(b)

To adjust "Taxes Other Than Income Tax" for Increased  
cost of property taxes for 2008

**Property Tax:**

DLGF Plant Factor per March 2008 filing Plus Plant Additions	\$ 3,102,063
Weighted Tax Rate - Test Year	0.015750
Plus: Increase in Property Tax Rate - Estimated	3.00% <u>0.000473</u>
Pro-Forma Property Tax Rate	<u>0.016223</u>
Pro-Forma Property Tax at Present Rates	<u>50,323</u>
Less: Test Year Property Tax Expense	<u>38,776</u>
Increase / (Decrease) in Property Tax Expense	<u>\$ 11,547</u>

(c)

To adjust "Taxes Other Than Income Taxes" to reflect changes  
in applicable revenues for Utility Receipts Tax.

**Utility Receipts Tax:**

Utility Receipts	\$ 6,405,581
Less: Exemption	<u>1,000</u>
Bad debts	<u>13,642</u>
Utility Receipts Subject to Utility Receipts Tax	6,390,939
Applicable Utility Receipts Tax Rate	<u>1.40%</u>
Pro-Forma at Present Rates	\$ 89,473
Less: Test Year Expense	<u>75,066</u>
Adjustment - Increase / (Decrease) in State Utility Receipt Tax Expense	<u>\$ 14,407</u>
Adjustment - Increase / (Decrease) in Taxes Other Than Income Taxes	<u>\$ 30,510</u>

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(7) INCOME TAX ADJUSTMENTS**

To adjust "Income Tax" to reflect changes in  
Revenues and Expenses.

(a)

**State Income Tax:**

State Taxable Income	\$ 245,738	
Plus: Utility Receipts Tax	89,473	
Less: Synchronized Interest	(22,674)	
	<u>312,537</u>	
Applicable State Income Tax Rate	8.50%	
Pro-Forma at Present Rates	\$ 26,566	
Less: Test Year Expense	<u>36,313</u>	
Adjustment - Increase / (Decrease) in State Income Tax Expense		<u>\$ (9,747)</u>

(b)

**Federal Income Tax:**

Net Operating Income before Federal Tax and State Income Tax.	\$ 245,738	
Less:		
Adjusted State Income Tax (Adj. 7a)	(26,566)	
Synchronized Interest	<u>(22,674)</u>	
Federal Taxable Income	196,498	
Federal Taxable Rate	<u>34%</u>	
Adjusted Federal Income Tax Expense	\$ 66,809	
Less: Investment Tax Credit	<u>(1,800)</u>	
Adjusted Federal Income Tax Expense	65,009	
Less: Test Year Federal Income Tax	<u>148,957</u>	
Adjustment - Increase / (Decrease) in Federal Income Tax Expense		<u>\$ (82,148)</u>
Adjustment - Increase / (Decrease) Income Taxes		<u>\$ (91,895)</u>

INDIANA UTILITIES CORPORATION

Corydon, Indiana

## DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(A)

To adjust "Operating Revenues" to reflect proposed revenue increase.

Proforma Sales of Gas at present rates - Schedule C-3	\$ 6,405,581
Requested rate increase	<u>6.93%</u>
Adjustment - Increase / (Decrease)	<u>\$ 444,057</u>

(B)

To adjust "Other Operation and Maintenance" expense to reflect increase in IURC fee.

Proposed Revenue Increase	\$ 444,057
Current effective IURC fee rate	<u>0.13155870%</u>
Adjustment - Increase / (Decrease)	\$ 584

(C)

To adjust "Administrative and General Expense" to reflect increase in bad debts

Increase in Revenue Requested	\$ 444,057
Current Effective Rate	<u>0.002547</u>
Adjustment - Increase / (Decrease)	<u>1,131</u>
Total Increase In Other Operation and Maintenance	<u>\$ 1,715</u>



**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS**

(D)

To adjust "Taxes Other Than Income Tax"  
to reflect pro-forma changes in revenues and expenses.

**Utility Receipts Tax**

Proposed Revenue Increase	\$ 444,057
Less: Increase in Bad Debts	(1,131)
Receipts subject to Tax	<u>442,926</u>
Applicable Utility Receipts Tax Rate	<u>1.4%</u>
Adjustment - Increase / (Decrease)	<u>\$ 6,217</u>

(E)

To adjust "Income Taxes" to reflect pro-forma  
changes in revenues and expenses.

**State Income Tax:**

Proposed Revenue Increase	\$ 444,057
Less: Increase in IURC Fee	(584)
Increase in Bad Debts	<u>(1,131)</u>
Taxable Increase	442,342
Applicable Income Tax Rate	<u>8.50%</u>
Adjustment - Increase	<u>\$ 37,599</u>

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS**

(E) Continued

**Federal Income Tax:**

Proposed Revenue Increase	\$ 444,057
Less: Increase in IURC Fee	(584)
Increase in Utility Receipts Tax	(6,217)
Increase in Bad Debts	(1,131)
Increase in State Income Tax	<u>(37,599)</u>

Federal taxable income increase	398,526
Applicable tax rate	<u>34%</u>

Adjustment-Increase \$ 135,499

Total Increase / (Decrease) to Income Tax \$ 173,098

**SCHEDULE C-3**

**INDIANA UTILITIES CORPORATION**

**Corydon, Indiana**

**TOTAL BILLED REVENUE CALCULATION**

Estimated Volume of Gas Purchased - DTH	460,165
Estimated Base Cost of Gas for GCA	<u>\$ 10.31</u>
Estimated Cost of Gas To Be Included in Revenues	4,743,246
Pro-Forma Present Rate Gas Sales Revenue	<u>1,662,335</u>
Total Revenue Including Gas Costs	6,405,581
Requested Percentage Increase	<u>6.93%</u>
Revenue Adjustment Requested	<u><u>\$ 444,057</u></u>

**EXHIBIT D****INDIANA UTILITIES CORPORATION****Corydon, Indiana****ORIGINAL COST RATE BASE**

Utility Plant In Service As Of December 31, 2007		\$ 7,294,301
Plus: New Billing System		31,415
Plus: Capitalized Payroll from Adjustment 3a		16,468
Plus: New Construction for New Teritorial Expansion - Estimate		<u>750,000</u>
		8,092,184
Less: Accumulated Depreciation Estimated		<u>(3,714,139)</u>
Net Utility Plant in Service		4,378,045
Plus:		
Working Capital	\$ 998,138 /8	124,767
Materials and Supplies		<u>32,011</u>
Total Original Cost Rate Base		<u>\$ 4,534,823</u>
Net Operating Income Authorized		<u>\$ 415,390</u>

**EXHIBIT E****INDIANA UTILITIES CORPORATION****Corydon, Indiana****CAPITAL STRUCTURE  
As of December 31, 2007**

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$7,701,673	79.04%	10.90%	8.62%
Customer Deposits	62,931	0.65%	6.00%	0.04%
Long Term Debt	750,000	7.70%	6.00%	0.46%
Post ITC	33,534	0.34%	10.43%	0.04%
Deferred Tax	<u>1,196,023</u>	<u>12.27%</u>	0.00%	<u>0.00%</u>
Total	<u>\$9,744,161</u>	<u>100.00%</u>		<u>9.16%</u>

**SCHEDULE E-1****INDIANA UTILITIES CORPORATION****Corydon, Indiana****CALCULATION OF POST-1970 ITC RATE****As of December 31, 2007**

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$7,701,673	90.45%	10.90%	9.86%
Long Term Debt	750,000	8.81%	6.00%	0.53%
Customer Deposits	<u>62,931</u>	<u>0.74%</u>	6.00%	<u>0.04%</u>
Total	<u>\$8,514,604</u>	<u>100.00%</u>		<u>10.43%</u>

**INDIANA UTILITIES CORPORATION**

Corydon, Indiana

**CALCULATION OF SYNCHRONIZED INTEREST**

As of December 31, 2007

Description	Amount	Percent of Total	Cost	Weighted Cost	Weighted Cost of Debt
Common Equity	\$7,701,673	79.31%	10.90%	8.64%	0.00%
Long Term Debt - New	750,000	7.72%	6.00%	0.46%	0.46%
Customer Deposits	62,931	0.65%	6.00%	0.04%	0.04%
Deferred Tax	<u>1,196,023</u>	<u>12.32%</u>	0.00%	<u>0.00%</u>	<u>0.00%</u>
Total	<u>\$9,710,627</u>	<u>87.68%</u>		<u>9.14%</u>	<u>0.50%</u>

Rate Base \$4,534,823

Weighted Cost of Debt 0.50%

Synchronized Interest \$22,674